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Michael J. Lyons

Andrew J. Wu

Harry F. Doscher

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EXCLUSION OF DOWNSTREAM PRODUCTS AFTER *KYOCERA*: A REVISED FRAMEWORK FOR GENERAL EXCLUSION ORDERS

Michael J. Lyons, Andrew J. Wu & Harry F. Doscher[†]

INTRODUCTION

The United States International Trade Commission (USITC) has become the forum of choice for many inventors seeking to protect against foreign infringement of their U.S. patent rights. Over the past several decades, intellectual property has become an increasingly important part of the U.S. economy. At the same time, manufacturing has increasingly shifted overseas. Although accurately measuring the economic impact of imports that infringe U.S. intellectual property law is difficult, if not impossible, there can be no doubt that infringing imports costs the U.S. economy billions of dollars every year, and that these costs are growing.[1] The USITC is not only authorized to issue orders excluding infringing products from importation into the U.S., but is empowered to direct the U.S. Department of Customs and Border Protection to intercept such products and prevent them from entering the country. Due in large part to the practical difficulties of enforcing U.S. intellectual property rights against foreign manufacturers and importers of infringing goods through the federal district courts, as well as due to a number of strategic advantages inherent to litigating before the USITC, the number of complaints filed with the USITC seeking exclusion of infringing imports has

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† The authors are attorneys at Morgan Lewis & Bockius LLP. They represent a patent holder that has obtained a Limited Exclusion Order barring importation of downstream infringing products in ITC Investigation No. 337-TA-556. The opinions expressed herein are those of the authors, and do not necessarily represent the opinions or views of Morgan Lewis & Bockius LLP or its clients.

1. Government and industry sources have estimated that 5-7% of worldwide trade consists of counterfeited goods, and that software piracy alone may cost the U.S. economy 175,000 jobs, $4.5 billion in wages, and nearly $1 billion in tax revenues. *See* Amanda Horan, Christopher Johnson & Heather Sykes, *Foreign Infringement of Intellectual Property Rights: Implications for Selected U.S. Industries* 5 (U.S. Int'l Trade Comm'n, Working Paper No. ID-14, 2005), *available at* http://www.usitc.gov/ind_econ_ana/research_ana/research_work_papers/index.htm#2005.

increased dramatically in recent years.

The Federal Circuit in *Kyocera Wireless Corp. v. International Trade Commission*[2] recently restricted the ability of patent holders to obtain exclusion of downstream[3] infringing products from the USITC. Before *Kyocera*, the USITC routinely issued a limited exclusion order barring the infringing importation of a respondent's products as well as downstream products containing the respondent's product–regardless of the identity of the ultimate manufacturer or importer of the downstream product. The USITC often provided this downstream relief when a respondent's product was frequently or easily incorporated into larger third-party imports. Before *Kyocera*, the USITC issued a general exclusion order, on the other hand, when it sought to bar any importation of a class of infringing products, regardless of whether a named respondent had any role in their manufacture.[4]

In *Kyocera*, a Federal Circuit panel ruled that the USITC lacks statutory authority to issue a limited exclusion order excluding the downstream products of any non-respondent third party. Instead, according to Judge Rader's opinion, the USITC possesses statutory authority to exclude the imports of non-respondents only when the higher showing necessary for a general exclusion order has been made.

Downstream exclusion in a limited exclusion order is still possible. Obviously, a patent holder seeking to exclude only the downstream products of the manufacturer of the infringing component itself would be unaffected by the *Kyocera* decision, as would a patent holder that can name all possible downstream infringers as respondents in the investigation. In many if not most

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2. *Kyocera Wireless Corp. v. Int'l Trade Comm'n*, 545 F.3d 1340 (Fed. Cir. 2008)

3. When an infringing article is incorporated into a product further down in the stream of production, the product is sometimes referred to as a "downstream product." *See id.* at 1358 (quoting Hyundai Elecs. Indus. Co. v. United States ITC, 899 F.2d 1204, 1206 (Fed. Cir. 1990) ("[T]he downstream products affected by the ITC's order were 'Hyundai computers, computer peripherals, telecommunications equipment, and automotive electronic equipment containing infringing [memory devices].'")). Such downstream products may include circuit boards, computers, cell phones, cars, or other finished or partially finished goods containing an infringing component.

4. The vertical/horizontal distinction between pre-*Kyocera* limited and general exclusion orders can be simply conceptualized as "respondent's widget and products containing respondent's widget" (vertical exclusion) versus "all widgets" (horizontal exclusion). Before *Kyocera*, the USITC utilized a limited exclusion order to exclude the first class of products, and a general exclusion order to exclude the second.

cases, however, the identity of downstream infringers and importers are either unknown or can readily change. Thus, to ensure that it continues to provide meaningful relief, the USITC should revise its framework for analyzing whether, and to what extent, downstream relief should be granted.

Specifically, patent holders should now consider seeking downstream exclusion either through a limited exclusion order (if all downstream infringers can be named as respondents), or through a general exclusion order. In reviewing a request for a general exclusion order encompassing downstream products, the USITC should not look to the factors previously articulated in *Certain Airless Paint Spray Pumps and Components Thereof*.[5] Rather, the USITC should apply the specific, and broader statutory requirements set forth in 19 U.S.C. § 1337(d)(2)(A)-(B) to determine whether a general exclusion order is warranted in any particular investigation. In cases where a general exclusion order is warranted under the statutory test, the USITC should apply the *Spray Pumps* factors with respect to horizontal exclusion, and the factors articulated in *Certain Erasable Programmable Read Only Memories, Components Thereof, Products Containing Such Memories, And Processes For Making Such Memories*[6] to determine if the general exclusion order should include downstream relief.

I. EXCLUDING DOWNSTREAM INFRINGING IMPORTS IS A CENTRAL AND CRUCIAL FUNCTION OF THE USITC

A. Downstream Exclusion is Part of the USITC's Historic Charter

The USITC is statutorily mandated to prevent unfair competition

5. Certain Airless Paint Spray Pumps and Components Thereof, USITC Inv. No. 337-TA-90 (November 1981) [hereinafter Spray Pumps]. The *Spray Pumps* test has to date been the sole inquiry used by the USITC to determine whether to issue a general exclusion, and requires showing both "certain business conditions" from which one might reasonably infer the likelihood of circumvention of an exclusion order and a "widespread pattern of unauthorized use" of the patented invention. *Id.* at 473. Under this proposed framework, the *Spray Pumps* test would remain the appropriate analysis for whether to grant horizontal relief, but only after the statutory threshold for issuing a general exclusion order has been crossed.

6. Certain Erasable Programmable Read-Only Memories, Components Thereof, Products Containing Such Memories, and Processes for Making Such Memories, USITC Pub. 2196, Inv. No. 337-TA-276, at 124-25 (May 1989), *aff'd sub nom.* Hyundai Elec. Indus. Co. v. U.S. Int'l Trade Comm'n, 899 F.2d 1204 (Fed. Cir. 1990) [hereinafter EPROMs].

from imported products that infringe U.S. intellectual property laws.[7] The earliest predecessor agency of the USITC, the Tariff Commission of the Department of the Treasury,[8] was created in 1882 with the straightforward mission to investigate U.S. agriculture, commerce, manufacturing, mining, and industry, and to recommend tariff legislation. Its mission to protect U.S. industry was greatly expanded in the Tariff Acts of 1922 and 1930, which, among other things, included Section 337[9] authorizing the U.S. Tariff Commission (the then-existing predecessor of the USITC) to protect domestic industries from "unfair methods of competition and unfair acts in the importation of articles" by directing customs to exclude certain imported products.[10] Although Section 337 applies to any form of "unfair acts," it has, for practical reasons, recently been primarily used in intellectual property disputes.[11] Even so, Section 337 was little used for most of its history.[12] But as intellectual property has become increasingly important to the modern global economy, and as manufacturing activity has increasingly moved off-shore, Section 337 has rapidly grown in popularity, such that the USITC issued 40 notices of investigation under Section 337 in 2008 alone, an eightfold increase from 1975.[13]

Although Section 337 has since undergone several amendments,

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7. *See* 19 U.S.C. § 1337(a)(1) (2006) (unlawful acts "shall be dealt with")

8. The various predecessor agencies of the USITC include the Tariff Commission (1882), the Tariff Board (1909-12), the Cost of Production Division of the Department of Commerce's Bureau of Foreign and Domestic Commerce (1913-16), and the U.S. Tariff Commission (1916-75). The USITC, as currently embodied, was created by the Trade Act of 1974. *See* Records of the United States International Trade Commission [USITC], Record Group 81, *available at* http://www.archives.gov/research/guide-fed-records/groups/081.html (retrieved Jan. 13, 2009).

9. Section 337 was first incorporated in the Tariff Act of 1922, later re-incorporated in the Smoot-Hawley Tariff Act of 1933, and currently resides in the 1974 Trade Act. *See* 19 U.S.C. § 1337 (2006).

10. *See* 19 U.S.C. § 1337(a)(1)(A)–(d) (2006).

11. Relief from other forms of unfair competition under Section 337 require a showing that the unfair acts threaten to "destroy or substantially injure" a domestic industry, "prevent the establishment of" a domestic industry, or "restrain or monopolize trade and commerce in the United States." 19 U.S.C. § 1337(a)(1)(A) (2006). But after the 1988 Trade Act, relief from intellectual property infringement under Section 337 requires only the lesser showing that a domestic industry relating to the articles protected by the intellectual property "exists or is in the process of being established." 19 U.S.C. § 1337(a)(2) (2006).

12. For example, the USITC issued only five original notices of investigation under Section 337 in 1975 (337-TA-17 through 337-TA-21) and seven in 1976 (337-TA-22 through 337-TA-28). *See* USITC, 337 Investigational History (All 337 Investigations), *available at* http://info.usitc.gov/ouii/public/337inv.nsf/All?OpenView (retrieved Jan. 15, 2009).

13. *See Id.*

its fundamental mission has remained unchanged. The United States emphatically reaffirmed the importance of effective border controls against infringing imports while negotiating the preeminent multilateral treaty regarding intellectual property, the Uruguay Round Agreement on Trade Related Aspects of Intellectual Property (1994) (TRIPS Agreement).[14] The TRIPS Agreement was strongly promoted by the United States and other developed countries, which saw an urgent need to strengthen intellectual property protections globally, and especially to strengthen border controls against infringing imports.[15] As a result of the concerns of the United States and other developed nations, Articles 51-60 of Section 4 of the TRIPS Agreement are dedicated to border control and the administrative detention of infringing or potentially infringing goods by customs authorities.

Congress implemented the TRIPS Agreement in 1994. In the same implementing legislation, Congress amended Section 337 to conform to a 1988 GATT Panel Report that had found that general exclusion orders issued under Section 337 violated the "national treatment"[16] obligation of the United States under the 1947 General Agreement on Tariffs and Trade (GATT) by subjecting imported products to different proceedings than those applied in federal district courts against domestically manufactured products.[17] Noting that the

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14. *See* Suggestion by the United States for Achieving the Negotiating Objective, submitted to GATT Group of Negotiations on Goods, MTN.GNG/NG11/W/14/Rev.1, ¶¶ 2-3, 12-13, 16-17 (Oct. 17, 1988). The TRIPS Agreement was opposed by a number of developing countries that feared stronger protection of intellectual property rights would hinder their access to advanced technologies. Ultimately, the concerns of the developed countries prevailed, and the TRIPS Agreement strengthened and harmonized various aspects of the patent systems of signatory countries, including an entire section devoted to border controls. *See* Uruguay Round Agreement on Trade Related Aspects of Intellectual Property, Section 4, Articles 51-60 (1994) *available at* http://www.wto.org/english/docs_e/legal_e/27-trips.pdf (retrieved Jan. 9, 2009).

15. *See id.*

16. *See infra* note 29.

17. The Panel held that:

> The central and undisputed facts before the Panel are that, in patent infringement cases, proceedings before the USITC under Section 337 are only applicable to imported products alleged to infringe a United States patent; and that these proceedings are different, in a number of respects, from those applying before a federal district court when a product of United States origin is challenged on the grounds of patent infringement.

United States–Section 337 of the Tariff Act of 1930, 36th Supp. BISD 345 (1990), ¶ 5.4 (GATT Panel Rept. adopted Nov. 7, 1989). Nonetheless, the Panel did not rule out that in rem general exclusion orders could sometimes qualify as necessary under GATT Article XX(d) (relating to exceptions for enforcement measures), and outlined the circumstances in which that might be

TRIPS Agreement, which was for the most part negotiated after the 1988 GATT Panel Report issued, had recognized that it may be necessary to treat imported and domestically produced goods differently in order to enforce laws relating to intellectual property protection,[18] the 1994 legislation sought to conform Section 337 to the GATT Panel's Report by amending 19 U.S.C. § 1337 in several respects.[19] Among other changes, the 1994 amendment added a new § 1337(d)(2):

> (2) The authority of the Commission to order an exclusion from entry of articles shall be limited to persons determined by the Commission to be violating this section unless the Commission determines that
>
> (A) a general exclusion from entry of articles is necessary to prevent circumvention of an exclusion order limited to products of named persons; or
>
> (B) there is a pattern of violation of this section and it is difficult to identify the source of infringing products.[20]

Prior to this amendment in 1994, 19 U.S.C. § 1337(d) contained no statutory distinction between "limited" or "general" exclusion orders.[21] Instead, the USITC had developed case law to determine whether to extend the scope of an exclusion order beyond the infringing products of the named respondents, either against downstream products containing the respondent's infringing product,[22] or against other actual or potential manufacturers of an

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the case:

> [T]here could sometimes be objective reasons why general in rem exclusion orders might be 'necessary' in terms of Article XX(d) . . . . For example, in the case of imported products it might be considerably more difficult to identify the source of infringing products or to prevent circumvention of orders limited to the products of named persons, than in the case of products of United States origin.

Id.

18. *See* H.R. REP. NO. 103-826, at 142 (1994); *see also infra*, note 30.

19. *See* S. REP. NO. 103-412, at 120 (1994); H.R. REP. NO. 103-826, at 140-42 ("The amendments are necessary to ensure that U.S. procedures for dealing with alleged infringements by imported products comport with GATT 1994 'national treatment' rules, while providing for the effective enforcement of intellectual property rights at the border.").

20. Congress may have tailored the language of the amendment to forestall further GATT challenges by adopting the GATT panel's examples and adding the "necessary" requirement for an enforcement measure under Article XX(d).

21. *See* EPROMs, *supra* note 6, at 124 n.159 ("[T]he limited exclusion order is itself a limitation on the relief afforded a prevailing complainant, created by the Commission without specific authority in the statute.").

22. *See id.* at 125 (articulating a non-exclusive nine factor test for relief against

infringing product.[23] As reported by the Senate Committee, the amended § 1337(d)(2) did not differ significantly from the then current practices of the USITC. "It is the Committee's understanding that these limitations do not differ significantly from the current practice of the ITC with respect to the issuance of general exclusion orders."[24]

B. Downstream Exclusion Against Non-Respondents Obtained Through the USITC is Crucial to Effective Protection of Intellectual Property Rights

Articulating the *EPROMS* factors for downstream exclusion, the USITC noted "Congress' general intent that section 337 be strictly enforced, and its desire to provide domestic industries the most complete protection possible from infringing imports."[25] In many cases, however, an exclusion order without downstream protection against non-respondents will provide little or no relief to the patent holder. The manufacturer of an infringing component often does not directly import the infringing product into the U.S. In such cases, if the patent holder is only able to identify the manufacturers as respondents in the patent holder's complaint, then a limited exclusion order will not block the importation of downstream infringing products. Moreover, even if the patent holder could identify all importers of downstream products as respondents, those respondent manufacturers and importers could circumvent an exclusion order that lacks non-respondent downstream protection simply by switching importers, or forming a new entity for importation. There may be a large number of potentially infringing downstream products, and the patent holder may not readily be able to determine which particular products contain infringing components without extensive discovery from foreign sources or destructive testing. For these reasons, the Federal Circuit has repeatedly confirmed that downstream exclusion may be necessary to provide effective relief.[26]

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downstream products).

23. Spray Pumps, *supra* note 5 (articulating a two-part test for relief, with eight subparts).

24. S. REP. NO. 103-412 at 120 (1994).

25. *See* EPROMs, *supra* note 6, at 124 n.159 (citing S. REP. NO. 100-71 at 127-33 (1987)).

26. *See id.* at 126 ("We believe that exclusion of [certain downstream products] is warranted in order to ensure that the exclusion order is reasonably effective."); Hyundai Elecs. Indus. Co. v. United States ITC, 899 F.2d 1204, 1209 (Fed. Cir. 1990) ("The Commission's remedy determination in *EPROMS* represents a careful and common-sense balancing of the parties' conflicting interests as well as other relevant factors . . . .").

In addition to the ability to reach downstream products of non-respondents, there are other compelling reasons for a patent holder to pursue relief through the USITC instead of, or in addition to, the courts. First, it may be impractical to obtain effective relief from infringing imports through the U.S. district courts. For example, a U.S. based company may not be able to locate and serve all of the infringing importers around the world, and the importers' identities might change rapidly, especially in response to legal action. Even if the plaintiff manages to identify each importer of infringing products, joining numerous foreign importers in a single judicial forum may be impossible because of jurisdiction, venue, or forum *non conveniens* issues. Additional practical difficulties await even the successful litigant.

Assuming the plaintiff overcomes the practical, jurisdictional, and venue related obstacles to joining the foreign importers in a U.S. court and goes on to obtain a judgment, the plaintiff will likely still be unable to prevent the importation of infringing products. Unlike the USITC, U.S. courts in a typical patent case lack the authority to order infringing imports excluded by customs. In addition, a foreign court might refuse to enforce a U.S. injunction or award, or require lengthy and costly additional procedures before doing so. Moreover, a foreign importer could easily circumvent the in personam orders of a U.S. court simply by setting up a new entity to import its products. Prior to *Kyocera*, on the other hand, Federal Circuit precedent[27] considered the USITC's exclusion orders to be in rem orders, applicable against products, not parties. In addition to enabling the USITC to flexibly craft relief against downstream products and current as well as future importers, the in rem nature of the order allowed the USITC to shift to any given importer the burden of certifying that an import did not infringe.[28]

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27. *See* SSIH Equip. S.A. v. U.S. Int'l Trade Comm'n, 718 F.2d 365, 370 (Fed. Cir. 1983) (recognizing that the in rem nature of exclusion orders "results in an order operative against goods and is equally effective against those who participate as those who do not participate in the proceeding."); Sealed Air Corp. v. U.S. Int'l Trade Comm'n, 645 F.2d 976, 985-86 (CCPA 1981) ("An exclusion order operates against goods, not parties.").

28. Other strategic considerations, not necessarily relevant to preventing unfair competition, may have contributed to making the USITC a popular forum for seeking relief instead of, or in addition to, the courts. Prior to the 1994 amendments, which provided, inter alia, for the stay of district court litigation at the request of one of the parties to both the district court action and the USITC investigation, a respondent might have to simultaneously defend itself before the USITC and in the federal courts. *See* 28 U.S.C. § 1659(a) (2006). Additionally, section 337 requires the investigation to be completed "at the earliest practicable time" and

Although downstream exclusion is necessary and important, it must be applied consistently with the "national treatment" obligation, an essential feature of the United States' obligation under numerous multilateral treaties such as the TRIPS Agreement and the GATT. For example, the "national treatment" obligation found in Article III:4 of the GATT states in part:

> The products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use.[29]

This provision works to prevent creative protectionism wrought by facially neutral laws that indirectly discriminate against foreign imports by obligating all member nations to provide equal opportunity[30] to the imported products of other GATT members, and by extension to the companies that produce them, as compared to domestic manufacturers and their products. Allegations that a challenged non-tariff legal, regulatory, or administrative treatment of imported products violates this "national treatment" obligation have become one of the more common grounds on which disputes are brought before the GATT.

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requires that the Commission establish a target date for issuing its final determination within 45 days after the investigation is initiated, which typically results in the investigation proceeding much more quickly than the typical case in a U.S. federal court. *See* 19 U.S.C. § 1337(b)(1) (2006). A well-prepared complainant can benefit from an accelerated schedule that effectively limits the opportunities for discovery and motion practice. Another strategic reason that a patent holder might choose to pursue relief through the USITC is to seek relief against the products of entities with which the complainant enjoys a sensitive business relationship, such as its own customers, without having to sue them in court. While this was often accomplished through the downstream LEO that was rejected in *Kyocera*, it remains possible through a GEO. *See* 19 U.S.C. § 1337(d)(1)-(2) (2006). Moreover, in the wake of the Federal Circuit's *eBay* decision, a patent holder may choose to litigate in the USITC because the USITC nearly automatically issues an exclusion order if it finds a valid patent infringed, whereas a district court may refuse to enter an injunction. *See eBay Inc v. MercExchange, L.L.C.*, 547 U.S. 388, 394 (2006) (holding that an injunction should not automatically issue after a finding of patent infringement).

29. General Agreement on Tariffs and Trade, Oct. 30, 1947, 61 Stat. A-11, 55 U.N.T.S. 194, *available at* http://www.wto.org/english/docs_e/legal_e/gatt47_e.pdf [hereinafter GATT].

30. "Article III protects expectations not of any particular trade volume but rather of the equal competitive relationship between imported and domestic products." *Japan—Taxes on Alcoholic Beverages*, WT/DS8, 10 & 11/AB/R, ¶ 16 (Appellate Body Rept. adopted Nov. 1, 1996); *see also United States—Section 337 of the Tariff Act of 1930*, 36th Supp. BISD 345, 386 (1990), ¶ 5.11 (GATT Panel Rept. adopted Nov. 7, 1989) ("The words 'treatment no less favorable' in paragraph 4 call for effective equality of opportunities for imported products . . . .")

The national treatment obligation is not absolute, but the exceptions are limited. Article XX of the 1947 GATT provides a small number of enumerated exceptions including, inter alia, measures found "necessary to secure compliance with laws or regulations which are not inconsistent with [GATT rules themselves]."[31] "Necessary," in the context of Art. XX, means that no less GATT-inconsistent measure is "reasonably available."[32] Moreover, a challenged measure will only allowed as an exception to the national treatment obligation if the measure falls within one of the enumerated exceptions and, further, is "not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries . . . or a disguised restriction on international trade."[33] Certainly, the intellectual property laws of the United States are not themselves inconsistent with the GATT. From the perspective of international trade policy, then, the question is whether the USITC, its procedures, and its remedial measures afford less favorable treatment to imported products and, if so, whether they are "necessary" to secure compliance with U.S. intellectual property laws, or whether they operate as an arbitrary, unjustified, or disguised restriction on international trade. To the extent downstream exclusion of infringing imports is "necessary" to provide effective relief to U.S. patent holders, it is therefore also consistent with the United States' national treatment obligations.

II. IN *KYOCERA*, THE FEDERAL CIRCUIT LIMITED PATENT HOLDER'S ABILITY TO OBTAIN DOWNSTREAM EXCLUSION THROUGH LIMITED EXCLUSION ORDERS

The Federal Circuit panel in *Kyocera* found that the USITC is explicitly prohibited by its governing statute from providing relief through a limited exclusion order against the downstream products of non-respondents. Relying strictly on an analysis of the language of the amended text, the *Kyocera* panel held that "Section 337 permits

31. GATT, *supra* note 29, Art. XX(d). There are a number of general exceptions to the national treatment obligation, including for example measures "necessary to protect . . . life or health" and those "relating to the conservation of exhaustible natural resources." *Id.* Art. XX(a)-(j).

32. *Korea—Measures Affecting Imports of Fresh, Chilled and Frozen Beef*, WT/DS161 & 169/AB/R, ¶ 166 (Appellate Body Rept. adopted Jan. 10, 2001).

33. *See United States—Import Prohibition of Certain Shrimp and Shrimp Products*, WT/DS58/AB/R, ¶ 150 (Appellate Body Rept. adopted Nov. 6, 1998) (The requirement that a measure not operate as an arbitrary, unjustifiable, or disguised restriction on international trade is a separate inquiry from whether the measure is "necessary.").

exclusion of the imports of non-respondents only via a general exclusion order, and then too, only by satisfying the heightened requirements of 1337(d)(2)(A) or (B). The statute permits LEOs to exclude only the violating products of named respondents."[34]

Prior to *Kyocera*, the USITC routinely issued limited exclusion orders including some level of downstream relief when, after a full *EPROMs* analysis, it determined that downstream exclusion was necessary for effective relief. The USITC did so at least in part because prior to *Kyocera*, indeed prior to the 1994 amendment to 19 U.S.C. § 1337(d), the Federal Circuit had held that exclusion orders were in rem instruments, applicable against products, including downstream products, not parties.[35] In addition, Congress had remarked that its 1994 amendment to § 1337(d) codifying the requirements for a general exclusion order "[did] not differ significantly from the current practice of the ITC . . . ."[36] Therefore, the USITC continued to believe that it was authorized to provide relief in appropriate cases by issuing an in rem limited exclusion order excluding downstream products.

However, the *Kyocera* panel made clear this was no longer the case. Focusing on the effect of the text added by the amendment to § 1337(d)(2),[37] the *Kyocera* panel found that excluding the products of persons not "determined . . . to be violating" as a respondent in the investigation was a function now reserved for general exclusion orders alone. Responding specifically to arguments that limited

34. Kyocera Wireless Corp. v. Int'l Trade Comm'n, 545 F.3d 1340, 1358 (Fed. Cir. 2008).

35. *See* SSIH Equip. S.A. v. U.S. Int'l Trade Comm'n, 718 F.2d 365, 370 (Fed. Cir. 1983) (recognizing that the in rem nature of exclusion orders, "results in an order operative against goods and is equally effective against those who participate as those who do not participate in the proceeding"); Sealed Air Corp. v. U.S. Int'l Trade Comm'n, 645 F.2d 976, 985-86 (CCPA 1981) ("An exclusion order operates against goods, not parties.").

36. S. REP. NO. 103-412 at 120 (1994). *See also Certain Neodymium-Iron-Boron Magnets, Magnet Alloys, and Articles Containing Same*, USITC Inv. No. 337-TA-372 (May 1996). The Commission examined the amended statute and determined that the two prongs of the new § 1337(d)(2) were coextensive with and merely codified the factors it had previously announced for determining when to issue a general exclusion order in *Certain Airless Paint Spray Pumps and Components Thereof*, USITC Inv. No. 337-TA-90 (Nov. 1981). Specifically, the USITC found that the "certain business conditions" inquiry from *Spray Pumps* matched § 1337(d)(2)(A) and that the "widespread pattern of unauthorized use" inquiry from *Spray Pumps* matched § 1337(d)(2)(B). *See infra* notes 54-57.

37. 19 U.S.C. § 1337(d)(2) (2006) ("The authority of the Commission to order an exclusion from entry of articles shall be limited to persons determined by the Commission to be violating this section unless [the statutory requirements for issuing a general exclusion order are found].").

exclusion orders have historically been considered in rem orders, the *Kyocera* court pointed to the amended language limiting exclusion to "persons" determined by the Commission to be violating the section as the legislative incorporation of an in personam element.[38]

In effect, the Federal Circuit ruled that although the 1994 amendment to § 1337(d), may not have changed the USITC's practice with respect to general exclusion orders, the amendment, which was ostensibly intended only to conform general exclusion orders to the GATT Panel Report, had changed the USITC's statutory authorization with respect to limited exclusion orders. According to *Kyocera*, the USITC is no longer authorized to provide effective relief against non-respondents' downstream products through a limited exclusion order.

III. FOLLOWING *KYOCERA*, PATENT HOLDERS CAN STILL OBTAIN DOWNSTREAM RELIEF

A. Downstream Relief Through A Limited Exclusion Order Is Possible, If Not Always Practical

Downstream exclusion in a limited exclusion order is still possible. Obviously, a patent holder seeking to prevent importation by only named respondents would be unaffected by the *Kyocera* decision.[39] But this relief would likely be illusory as the manufacturer of an infringing component may not directly import the product or any downstream products into the U.S. Just as obviously, a patent holder that can name all possible downstream infringers as respondents would be able to obtain downstream relief,[40] but this is often impractical or impossible as the patent holder is unlikely to be able to identify every possible foreign importer without extensive discovery, or because the identities of the foreign importers change, new importers arise, etc. Therefore, although downstream exclusion through a limited exclusion order is still possible after *Kyocera*, it is

38. *Kyocera*, 545 F.3d at 1357 ("Broadcom and the ITC's desired interpretation ignores the language of 337(d)(2), which incorporates the *in personam* element."). *See also* 19 U.S.C. § 1337(d)(2) (2006).

39. The *Kyocera* court reconciled an earlier Federal Circuit decision affirming downstream exclusion on the grounds that the downstream products excluded were imported by a respondent to the investigation. *See Kyocera*, 545 F.3d at 1357-58 (discussing *Hyundai Elec. Indus. Co. v. U.S. ITC*, 899 F.2d 1204 (Fed. Cir. 1990)).

40. *See Kyocera*, 545 F.3d at 1357 ("Broadcom chose to forego the full advantage of an LEO's statutory scope by not naming known downstream respondents.").

not an attractive option for obtaining effective relief.

B. Patent Holders Should Seek Downstream Exclusion in Appropriate Cases Through a General Exclusion Order

Beyond the typically unattractive option of a limited exclusion order that fails to provide effective relief against infringing imports, patent holders should consider seeking a general exclusion order to exclude downstream products, and the USITC should revise its framework for analyzing whether downstream relief should be granted.

The *Kyocera* decision confirmed, at least implicitly, that downstream relief is available through a general exclusion order. In *Kyocera*, the Federal Circuit did not simply restrict the limited exclusion order in that case to the parties to that investigation; they remanded the case so that "the Commission can reconsider its enforcement options."[41] If the USITC were to continue its past practice of providing only horizontal relief with a general exclusion order, then the only enforcement option in light of the *Kyocera* decision would be to require Section 337 complainants seeking vertical exclusion of downstream products to join every importer of infringing products. But for the reasons explained above, that would be impractical and would render exclusion orders ineffective or easily evaded in many cases. That was not the intention of the *Kyocera* court,[42] which stated that a patent holder concerned about circumvention of a limited exclusion order "has the option to bring a case under either subsection 337(d)(2)(A) or 337(d)(2)(B)."[43]

The USITC has always had "broad discretion in selecting the form, scope and extent of the remedy."[44] The trade policy of the United States, as outlined above, strongly supports robust intellectual property protection against infringing foreign imports at the nation's borders.[45] Even the GATT Panel that ruled against Section 337 in 1988 acknowledged the difficulties of providing effective relief against foreign importers,[46] and outlined findings, now incorporated

41. *Id.* at 1358.

42. *Id.* at 1357 ("To the contrary, this court does not perceive that its ruling today renders Section 337 relief illusory.").

43. *Id.*

44. Viscofan, S.A. v. U.S. Int'l Trade Comm'n, 787 F.2d 544, 548 (Fed. Cir. 1986).

45. *See supra* note 14.

46. *See United States—Section 337 of the Tariff Act of 1930*, ¶ 5.32, L/6439 (Nov. 7, 1989), GATT B.I.S.D. (36th Supp.) 345, 394-95 (1990) ("A limited in rem order applying to

in 19 U.S.C. § 1337(d)(2)(A)-(B), that it believed could demonstrate the necessity of providing in rem relief against non-parties to the litigation.[47] To the extent there were any lingering concerns about the policy of intercepting infringing goods at the borders, those concerns were put to rest in the drafting of the TRIPS agreement.[48] The USITC should use its discretion now to reevaluate the circumstances in which it issues general exclusion orders, so that it may in appropriate circumstances provide general exclusion orders encompassing vertically tailored relief against infringing downstream imports.

The USITC will need to revisit is framework for general exclusion orders. If the USITC is to provide effective relief against infringing downstream imports, then it must focus on the actual requirements of the statute, as codified by the 1994 amendment, rather than focusing, as it has in the past, almost exclusively on the *Spray Pumps* factors as the threshold for general exclusion orders.[49] The statutory test did not codify the *Spray Pumps* factors, as the USITC has assumed it did.[50] The statutory test is, in fact, much broader. For example, the statutory test is disjunctive, only requiring proof that *either* (A) a general exclusion from entry of articles is necessary to prevent circumvention of an exclusion order limited to products of named persons; *or* (B) there is a pattern of violation of this section and it is difficult to identify the source of infringing products.[51] In contrast, the *Spray Pumps* test is conjunctive, requiring proof of both the "business conditions" and "widespread pattern"

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imported products can thus be justified, for the reasons presented in the previous paragraph, as the functional equivalent of an injunction enjoining named domestic manufacturers.").

47. *Compare id.* ("[T]here could sometimes be objective reasons why general in rem exclusion orders might be 'necessary' in terms of Article XX(d) . . . . For example, in the case of imported products it might be considerably more difficult to identify the source of infringing products or to prevent circumvention of orders limited to the products of named persons, than in the case of products of United States origin.") *with* 19 U.S.C. § 1337(d)(2)(A)-(B) (2006).

48. *See* TRIPS Agreement, *supra* note 14.

49. Spray Pumps, *supra* note 5 at 18. The *Spray Pumps* test requires showing both "certain business conditions" from which one might reasonably infer the likelihood of circumvention of an exclusion order and a "widespread pattern of unauthorized use" of the patented invention.

50. The Federal Circuit corrected this misimpression in *Vastfame Camera, Ltd. v. Int'l Trade Comm'n*, stating "Congress's intent in adding § 1337(d)(2) was to comply with its obligations under the General Agreement on Tariffs and Trade, not to adopt the Commission's policy objectives as announced in *Certain Airless Paint Spray Pumps*." Vastfame Camera, Ltd. v. Int'l Trade Comm'n, 386 F.3d 1108, 1113 (Fed. Cir. 2004) (citing S. REP. NO. 103-412, at 120 (1994); H.R. REP. NO. 103-826, at 140-42 (1994)).

51. *See* 19 U.S.C. § 1337(d)(2)(A)-(B) (2006).

prongs.[52] Another example is that the statutory test does not require that a pattern of violation be "widespread."[53] On its face, therefore, Section 1337(d)(2) is much broader than the *Spray Pumps* test and appears to encompass circumstances wherein general vertical exclusion is necessary to prevent circumvention of a limited exclusion order.[54]

In addition to being a higher standard than required by the statute, a brief look at the factors the USITC examines as part of its *Spray Pumps* analysis quickly reveals that these factors are directed to determining whether *horizontal* exclusion is appropriate. The *Spray Pumps* factors, however, are ill-suited for a *vertical* analysis where there is only one or a small number of manufacturers of an infringing component who are capable of supplying a large number of potential third-party importers of infringing downstream products. Under *Spray Pumps*, the factors to which the USITC looks to prove a "widespread pattern of unauthorized use" of a patented invention include:

> (1) a Commission determination of unauthorized importation into the United States of infringing articles by numerous foreign manufacturers;
>
> (2) the pendency of foreign infringement suits based upon foreign patents which correspond to the domestic patent in issue; or
>
> (3) other evidence which demonstrates a history of unauthorized foreign use of the patented invention.[55]

The factors to which the USITC looks to prove the required "business conditions" include:

> (1) an established demand for the patented product in the U.S. market and conditions of the world market;
>
> (2) the availability of marketing and distribution networks in the United States for potential foreign manufacturers;
>
> (3) the cost to foreign entrepreneurs of building a facility capable of producing the patented article;
>
> (4) the number of foreign manufacturers whose facilities could be retooled to produce the patented article; or
>
> (5) the cost to foreign manufacturers of retooling their facility to

52. *See* Spray Pumps, *supra* note 5 at 18.

53. *See* 19 U.S.C. § 1337(d)(2)(B) (2006) ("there is a pattern of violation of this section and it is difficult to identify the source of infringing products").

54. *See* 19 U.S.C. § 1337(d)(2)(A) (2006).

55. *See* Spray Pumps, *supra* note 5 at 18-19.

produce the patented articles.[56]

Several of these factors make little sense in the context of a "vertical" analysis. For example, the existence of factors (1) and (2) of the "business conditions" prong seems self-evident where numerous downstream products are already making their way into the country. As another example, factors (3), (4), and (5) of the "business conditions" prong, which relate generally to the concern that additional manufacturer of an infringing product could easily enter the market to replace the excluded products of a respondent, make sense where the challenge to effective relief is "horizontal," i.e., concerning additional producers of "the patented article" itself. However, these factors are irrelevant where the challenge to effective relief is not new sources of "the patented article," but rather the numerous and ever-shifting downstream products into which the patented articles of existing manufacturers can be incorporated.

Because focusing exclusively on the *Spray Pumps* factors imposes more than the statutory burden on patentees and would not assist the USITC in determining whether to include vertical relief in a general exclusion order, the USITC should begin its inquiry with the statutory requirements of § 1337(d)(2). This is especially true in light of the *Kyocera* court's admonishment that the USITC is "a creature of statute, and must find authority for its actions in its enabling statute."[57]

C. *Where the USITC Finds that a General Exclusion Order is Warranted Under the Statute, It Should Apply the EPROMs and Spray Pumps Factors to Determine the Appropriateness Of Vertical and Horizontal Exclusion*

The USITC need not abandon *Spray Pumps* entirely. Where complainants seek *horizontal* relief under a general exclusion order, the *Spray Pump* factors might continue to provide the necessary analysis. To the extent complainants will now seek vertical relief under a general exclusion order, however, the Commission will need to review different factors relevant to vertical exclusion. Those factors, as it happens, have already been formulated and adopted by the USITC. Specifically, the USITC should turn to the *EPROMs* analysis that it employed to analyze potential vertical relief in limited

56. *Id.* at 19.

57. Kyocera Wireless Corp. v. Int'l Trade Comm'n, 545 F.3d 1340, 1355 (Fed. Cir. 2008).

exclusion orders before *Kyocera*.

In *EPROMs*, the Commission formulated a test for analyzing the necessity of downstream relief. In doing so, the Commission sought to balance "the complainant's interest in obtaining complete protection" against the potential "to disrupt legitimate trade in products which were not themselves the subject of a finding of violation of section 337."[58] The Commission provided a non-exclusive list of factors to consider in light of this balancing:

> In performing this balancing, the Commission may consider such matters as the value of the infringing articles compared to the value of the downstream products in which they are incorporated, the identity of the manufacturer of the downstream products (i.e., are the downstream products manufactured by the party found to have committed the unfair act, or by third parties), the incremental value to complainant of the exclusion of downstream products, the incremental detriment to respondents of such exclusion, the burdens imposed on third parties resulting from exclusion of downstream products, the availability of alternative downstream products which do not contain the infringing articles, the likelihood that imported downstream products actually contain the infringing articles and are thereby subject to exclusion, the opportunity for evasion of an exclusion order which does not include downstream products, the enforceability of an order by Customs, etc. This list is not exclusive; the Commission may identify and take into account any other factors which it believes bear on the question of whether to extend remedial exclusion to downstream products, and if so to what specific products.[59]

The *EPROMs* test was formulated expressly for analyzing the necessity of downstream relief in the context of a limited exclusion order. Post-*Kyocera*, the same factors represent the appropriate balancing in the context of downstream relief in the context of a general exclusion order.

Although the USITC has not historically issued general exclusion orders that do not extend horizontally, or that provide vertical relief, support does exist for both. In *Certain Agricultural Tractors Under 50 Power Take-Off Horsepower*,[60] a grey market case, the Commission issued a general exclusion order that was

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58. *See* EPROMs, *supra* note 6, at 125.

59. *Id.* at 125-26.

60. Certain Agricultural Tractors Under 50 Power Take-Off Horsepower, USITC Inv. No. 337-TA-380 at 43 (Mar. 12, 1997)

horizontally limited, applying only to one manufacturer's products, that is, "agricultural tractors under 50 power take-off horsepower that are manufactured by Kubota Corporation of Japan and infringe the federally registered U.S. trademark 'KUBOTA' . . . ." The Federal Circuit affirmed the relief."[61] Likewise, although the presiding Administrative Law Judge ultimately recommended a general exclusion order with no downstream exclusion in *Certain Neodymium-Iron-Boron Magnets, Magnet Alloys, and Articles Containing Same*,[62] he did so only after finding that downstream exclusion was not warranted under the particular facts of that case after performing an *EPROMs* analysis.[63]

Extending general exclusion orders vertically is not without risk, of course. Using both the *Spray Pumps* and *EPROMs* analysis, the USITC could craft a general exclusion order that reaches *both* horizontally and vertically, to an appropriately calibrated extent. The risk of interfering with legitimate trade might increase substantially if complainants were to seek both horizontal and vertical relief in the same order. However, the Commission is well practiced at balancing the policies of intellectual property protection against the risk of unfairly burdening trade, and long ago developed the analytical ability to do so effectively. Moreover, by divorcing the determination of whether to issue a general exclusion order from the determination of its appropriate scope, and by further separating the analyses of whether to extend that scope horizontally or vertically, the Commission might be in an even better position to analyze those risks than it was prior to *Kyocera*. In any event, the *Kyocera* panel has specifically instructed the USITC to "reconsider its enforcement options," and the Commission must do so in a manner consistent with its historical and statutory mandates. The framework proposed herein allows the Commission to provide essential, non-illusory, downstream relief via a "careful and common-sense balancing" of the relevant interests.[64]

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61. *Gamut Trading Co. v. U.S. Int'l Trade Comm'n*, 200 F.3d 775, 784 (Fed. Cir. 1999).

62. Certain Neodymium-Iron-Boron Magnets, Magnet Alloys, and Articles Containing Same, USITC Inv. No. 337-TA-372 at 25-29 (May 1996).

63. *Id.*

64. Hyundai Elec. Indus. Co. v. U.S. ITC, 899 F.2d 1204, 1209 (Fed. Cir. 1990) ("The Commission's remedy determination ... represents a careful and common-sense balancing of the parties' interests as well as other relevant factors . . . .").